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SUBJECT: DEPUTY SECRETARY OF COMMERCE'S ECONOMIC ROUNDTABLE

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1. (SBU) Influential Government of Vietnam (GVN) advisors offered their views on current economic and reform issues in a roundtable discussion with visiting Deputy Secretary of Commerce David A. Sampson on November 18. The roundtable focused on Vietnam's investment climate, intellectual property rights (IPR), and good governance/transparency. Participants stated that the U.S.-Vietnam Bilateral Trade Agreement (BTA) had contributed significantly to economic growth, and identified implementation problems as a barrier to improving the investment climate. Lack of capacity remains the greatest problem in IPR protection implementation, though price pressures also contribute to demand for pirated goods. Good governance/transparency are central to all reform and continued economic development, the participants agreed.

2. (SBU) Deputy Secretary of Commerce David A. Sampson heard from influential advisors to the Government of Vietnam (GVN) at an economic roundtable moderated by Ambassador Marine on November 18. A full list of participants follows in paragraphs 20 and 21. The DepSec welcomed the attendees and said he would like to focus the discussion on three topics: the investment climate, intellectual property rights (IPR) and good governance/transparency.

Investment Climate and BTA Implementation  
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3. (SBU) Noting that Vietnam's record of trade expansion has been impressive, the DepSec said that it is important for Vietnam to move forward with economic reforms, including those under the U.S.-Vietnam Bilateral Trade Agreement (BTA) and World Trade Organization (WTO) in order to maintain the pace of economic growth. U.S. companies are eager to do business in Vietnam, but are waiting to see how the current group of investors fares before making decisions to expand or enter the market, he added.

4. (SBU) Senior Advisor to the Prime Minister Ms. Pham Chi Lan stated that there has been significant improvement in Vietnam's investment climate in the past several years. The GVN has sought to provide a level playing field for the private and state-owned sectors, and domestic and foreign-invested enterprises by submitting the Common Investment Law (CIL) and the Enterprise Law for consideration by the National Assembly. The GVN gave very serious consideration to all suggestions for revisions to the CIL submitted in a joint letter authored by the American, Australian and European Union Chambers of Commerce in Vietnam, and although business has criticized the latest draft of the CIL, the draft is far better because of their input. The inclusion of guarantees for international dispute settlement demonstrates that the GVN listens to business and citizens before making a final decision, Lan concluded.

5. (SBU) Senior Advisor to the Minister of Planning and Investment Le Dang Doanh said that the BTA has led to a number of important reforms. The main problem now is implementation, especially at the provincial level. There is need to train provincial professionals and local authorities, as highlighted by the Provincial Competitiveness Study done by USAID. The second problem is the high cost to business in both time and money due to market dominance by monopolies, though this is starting to improve. Competition is beginning in civil aviation, for example. Doanh cited the need for improving labor force training at the university and vocational levels, and asked the DOC to provide assistance with vocational training.

6. (SBU) Vu Quoc Huy of the Institute for Economic Development Studies (IEDS) at the National Economics University (NEU) agreed that the BTA experience has been positive for Vietnam. It provided impetus for reforms, and resulted in capacity building and increased participation among non-government stakeholders. Additionally, the GVN was able to apply the lessons learned from the catfish and shrimp disputes with the United States to the EU shoe

dumping case.

17. (SBU) Director of the Center for Economic Development (CED) at Vietnam National University (VNU) Phung Xuan Nha said that since the GVN's policies to improve the business environment come from a government perspective, they may often be at odds with what the private sector actually needs. Although there have been increased opportunities for the private sector to provide input, in practice much confusion remains among investors. For example, while there have been extensive discussions about the need to improve competition, concrete measures have yet to be implemented. Implementing policy at the local level remains a challenge for the Central Government.

18. (SBU) Deputy Dean of the Department for Scientific Research at the National Economics University Pham Hong Chuong said that Vietnam is facing many dilemmas. The government and private sector want different things. The GVN is interested in maintaining a strong public sector, even though SOEs are one-third as efficient as the private sector. Equitized SOEs in which the government retains 51 percent of the shares continue to be SOEs, he pointed out. The GVN has chosen to develop the hi-tech sector with disregard to the fact that Vietnam lacks a number of conditions, including marketing experience, human resources and investment, that are necessary to the success of IT ventures. The GVN has invested a lot of money into the IT sector, with little return thus far. Noting that provincial authorities' limited capacity to evaluate projects makes it difficult to identify good investments, he called for assistance in this area.

#### Intellectual Property Rights Protection

19. (SBU) The DepSec applauded Vietnam's progress in strengthening its IPR regime, including the new legislation being considered by the National Assembly. (Note: the IPR law passed on November 19. End note.) The DOC's Patent and Trademark Office (PTO) has provided technical training and hosting study tours for Vietnam's IPR authorities, and more of this type of assistance if possible, he said.

110. (SBU) Doanh noted that the structure of the Vietnamese market is a major problem for implementing IPR protection. Vietnam's private sector is comprised of SMEs and family businesses, many of which do not understand IPR issues. In addition to passing laws, significant resources, including trained professionals, are needed to implement them. National Economics University's Chuong added that although many people realize that IPR protection is necessary, immediate implementation would drive computer prices beyond the reach of most Vietnamese, making it difficult to develop the IT sector.

#### Good Governance/Transparency

111. (SBU) The SepDec said that the DOC has launched a number of programs on good governance and transparency, and has worked with local public and private sectors to ensure a level playing field for both domestic and foreign business. The United States believes that this is fundamental to attracting investment. The DOC is considering establishing a program in Southeast Asia, and Vietnam is a good candidate.

112. (SBU) Doanh welcomed the suggestion of a good governance and transparency program in Vietnam. He said that SOE management does not include good governance concepts. Although an SOE may be equitized, it is not a market-economy enterprise, as the Party Secretary has full power to appoint board members. (Note: We believe Doanh is referring to the power that Party Secretaries exercise informally at all levels. End note.) He underlined the urgency for reform by pointing out that while the private sector produces 42 percent of the GDP, it employs 90 percent of the population, and generates 95 percent of new jobs.

113. (SBU) IEDS/NEU's Vu Quoc Huy said that good governance is central to all the issues brought up by the DepSec. Absence of good governance prevents implementation of good laws. Institutional capacity to carry out reform translates into employment and investment, he concluded.

114. (SBU) CED/VNU's Nha noted that the quality of government in Vietnam depends on public policy, which in turn depends on the quality of education.

#### OTHER ISSUES

115. (SBU) The Ambassador commented that although the private sector is increasingly an engine for economic growth, SOEs

remain strong, and wondered about the percentage of loans that are going to the private sector. He also asked whether SOEs are becoming more competitive in preparation for Vietnam's WTO accession. Finally, noting that China is a rising economic power, the Ambassador asked to what extent Vietnam is ready to compete with its neighbor.

116. (SBU) Doanh responded that China's rise has had a painful economic impact on Vietnam. The GVN's strategy is to both cooperate and compete with China. It is apparent that Vietnam cannot compete in some market segments, such as cheap textiles and apparel. SOEs must reform and integrate into the global economy, Doanh continued. Vietnam's experience with the insurance sector demonstrates that SOEs can compete in a market economy. Since the American International Group's (AIG) entry, SOEs providing insurance have a smaller share of the market, but are stronger. SOEs need to be provided with a roadmap, incentives and pressure to reform and become more competitive. He said that Vietnam appreciates the U.S. presence in Southeast Asia for security and stability reasons, adding that without it China's rise may have been more conflict ridden.

117. (SBU) Lan commented that Vietnam's leadership understands that SOEs are a burden on the budget, and this is providing impetus for the government to push for further reform. The New Enterprise Law that is being considered by the National Assembly would give SOEs a four-year window to become more competitive. Most SOEs know that without reforms, they will not be able to compete once Vietnam accedes to the WTO. The issue now is that of political will, as many SOEs still rely heavily on government support. Lan added that the private sector is growing and good governance is improving. In her opinion, Vietnam's SOEs will change significantly in the next five years, or will fail.

118. (SBU) Doanh said that WTO accession is a vehicle for reform, as it forces the government to take concrete action. He asked that the USG help Vietnam's WTO accession, noting that a strong Vietnam would contribute to peace and stability in the region. The DepSec replied that the U.S. Congress would have to pass Permanent Normal Trade Relations (PNTR) status for Vietnam before the WTO agreement can take effect, and that U.S. business support is critical. Therefore, the WTO accession package must be commercially sound. He also noted that next year is an election year, and Congress will be on an abbreviated schedule. Doanh also commented that WTO accession is important for Vietnam as APEC chair next year. Lan added that if Vietnam is to compete with China, it is important that Vietnam have a seat at the WTO.

#### "AN ENCOURAGING MEETING"

119. (SBU) The DepSec commented that the roundtable was one of the most encouraging meetings he had had in his nine-day visit to China and Vietnam. He said he was particularly impressed with the participants' strategic overview of the challenges that lie ahead. His previous responsibility for domestic development made him appreciate that not all regions are equally ready to receive investment, and that governments must be prepared to support their policy decisions. Noting that education and training are extremely important during periods of transition, the DepSec pledged to talk to the Department of Labor to see if there are assistance programs similar to those offered by the PTO. He added that successful development requires sustaining a direction for decades, and to accomplish this there must be consensus between government and the private sector. The DepSec concluded that there was strong consensus between the roundtable participants that good governance was an area needing particular focus and one that offered opportunities for collaboration between the Department of Commerce, the roundtable participants and Vietnamese Government entities.

120. (SBU) Vietnamese List of participants:  
Pham Chi Lan, Senior Advisor to the Prime Minister  
Le Dan Doanh, Senior Advisor to the Minister of Planning and Investment  
Vu Quoc Huy, Institute for Economic and Development Studies, National Economics University  
Phung Xuan Nha, Director of the Center for Economic Development, Vietnam National University  
Pham Hong Chuong, Deputy Dean of the Department for Scientific Research, National Economics University

121. (SBU) U.S. List of participants:  
DepSec David A. Sampson, Department of Commerce  
Ambassador Michael Marine  
Aimee Strudwick, Chief of Staff  
Miguel Pardo de Zela, Commercial Counselor  
John Simmons, Commercial Attache  
Tuyet Trees, U.S. Commercial Service  
Ania Burczynska, Economic Officer (notetaker)

